

## ~~Topic Notes~~ Financial management

Three key Decision of Financial management

1. Investment Decision = where to put money

2. Financing Decision = where to get the money from to invest

3. Dividend Policy Decision

Investment Decision:

Where to put money to get profit.

Capital assets = non-current Assets

working capital = current Assets - current liability

Financial assets =

Current Assets

Inventory

Receivable

Cash

Current Liability  
payables

Factor to consider in making a decision to

\* invest in a capital asset

1. Return → Profit - long term return

2. Risk = chance that the actual will be different except return

3. Short term profitability

4. Liquidity

\* invest in working capital

1. Solvency

2. Profitability

Solvency means your ability to pay off your debts, your short-term debts as and when you have to be able to finance your inventory and pay your payables.

Putting too much money in working capital reduces profitability today in the immediate or short term

#### \* Invest in a Financial Asset

Financial Asset: is investing in shares of another company buying government bonds/treasury bills, once you are putting your money a financial instrument for return.

|             | short term   | long term    |
|-------------|--------------|--------------|
| • Risk      | 1. Risk      | 1. Return    |
| • Return    | 2. Liquidity | 2. Risk      |
| • Liquidity | 3. Return    | 3. Liquidity |

#### The Financing Decision

Source of the money:

The basic 4 quest<sup>2</sup> to answer

1. How much funding do I require? (Total funding required)
2. Is this funding going to come from our internal organization or will be source externally?  
(Internally or externally generated).